



Fourth Quarter Fiscal 2019

May 23, 2019 8:00 am CDT



Forward-Looking Statements



This presentation contains statements, including information about future financial performance and market conditions, accompanied by phrases such as “believes,” “estimates,” “expects,” “plans,” “anticipates,” “intends,” and other similar “forward-looking” statements, as defined in the Private Securities Litigation Reform Act of 1995. Modine’s actual results, performance or achievements may differ materially from those expressed or implied in these statements because of certain risks and uncertainties, including, but not limited to those described under “Risk Factors” in Item 1A of Part I of the Company’s Annual Report on Form 10-K for the year ended March 31, 2018 and under Forward-Looking Statements in Item 7 of Part II of that same report, and in the Company’s Quarterly Reports on Form 10-Q for the quarters ended June 30, 2018, September 30, 2018 and December 31, 2018. Other risks and uncertainties include, but are not limited to, the following: the overall health and price-down focus of Modine’s customers; our ability to successfully execute our strategic and operational plans, including our evaluation of strategic alternatives for our automotive business within the VTS segment; uncertainties regarding the costs and benefits of Modine’s restructuring activities; operational inefficiencies as a result of program launches, unexpected volume increases and product transfers; economic, social and political conditions, changes and challenges in the markets where Modine operates and competes, including foreign currency exchange rate fluctuations, tariffs (and any potential trade war resulting from tariffs or retaliatory actions), inflation, changes in interest rates, recession, restrictions associated with importing and exporting and foreign ownership, and the general uncertainties about the impact of regulatory and/or policy changes, including those related to tax and trade, that have been or may be implemented in the U.S. or by its trade partners, and continuing uncertainty regarding “Brexit”; the impact on Modine of any significant increases in commodity prices, particularly aluminum, copper, steel and stainless steel (nickel) and other purchased component inventory, and our ability to adjust product pricing in response to any such increases; the nature of and Modine’s significant exposure to the vehicular industry and the dependence of this industry on the health of the economy; the concentration of sales within our CIS segment attributed to one customer; Modine’s ability to recruit and maintain talent in managerial, leadership, and administrative functions; Modine’s ability to protect its proprietary information and intellectual property from theft or attack; the impact of any substantial disruption or material breach of our information technology systems; costs and other effects of environmental investigation, remediation or litigation; and other risks and uncertainties identified by the Company in public filings with the U.S. Securities and Exchange Commission. Forward-looking statements are as of the date of this release, and the Company does not assume any obligation to update any forward-looking statements.

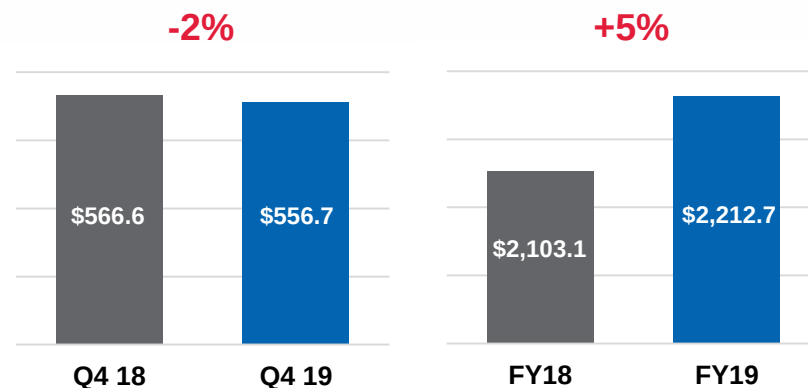
Q4 FY 2019 Highlights



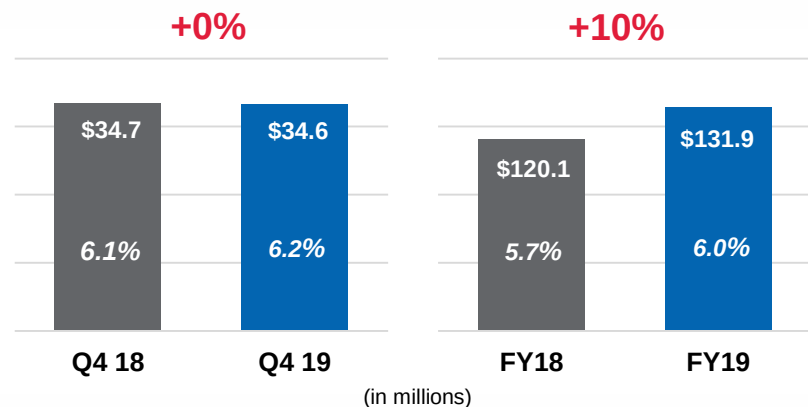
Second year in a row of record sales and earnings

- Fourth quarter sales increased 3% on a constant-currency basis, driven by strong growth in BHVAC segment
- Adjusted operating income flat with strong results in the CIS and BHVAC segments, offset by VTS
- Full year sales increased 7% on a constant-currency basis
- Full year adjusted operating income increased 10% to \$132M
- Significant progress on the automotive business strategic review

Net Sales



Adjusted Operating Income





Segment Updates

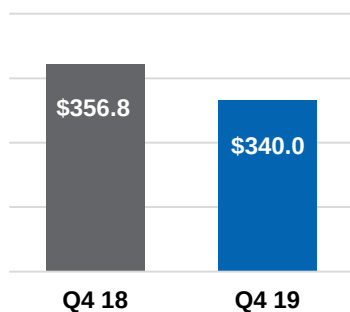


VTS Summary



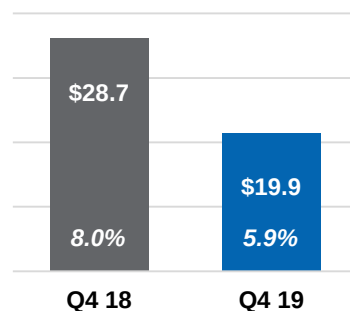
Net Sales

-5%



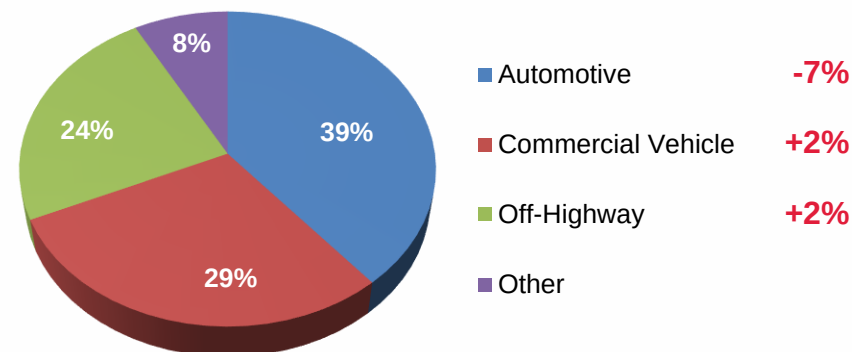
Adjusted Operating Income

-31%

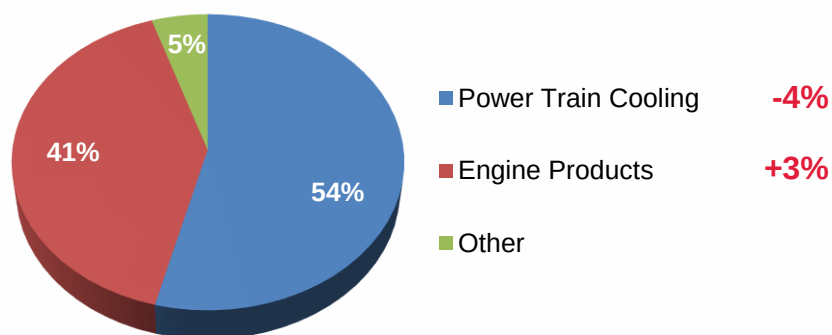


(in millions)

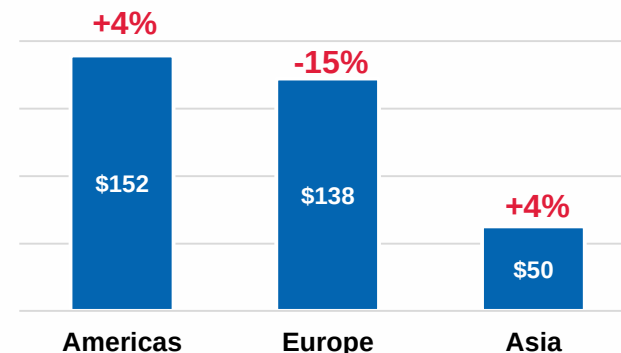
Sales by End Market



Sales by Product



Sales by Region



(in millions)

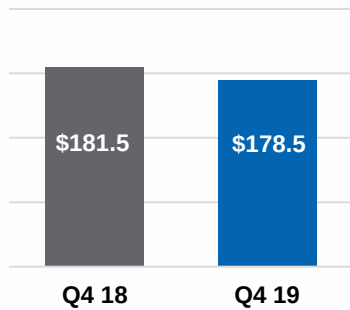
* See Appendix for Non-GAAP reconciliations

CIS Summary



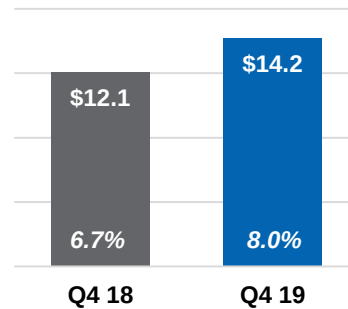
Net Sales

-2%



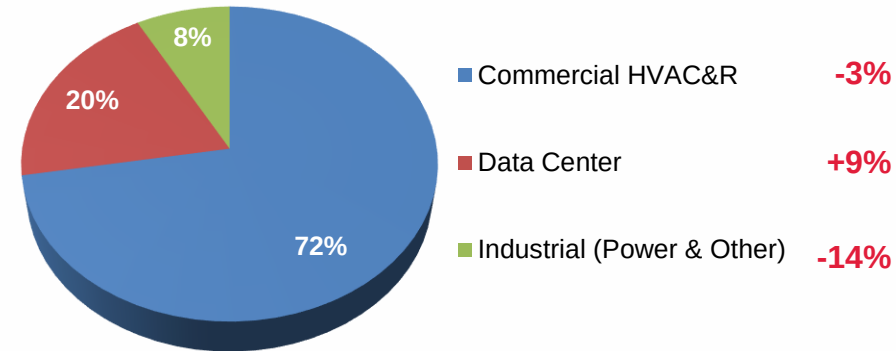
Adjusted Operating Income

+17%

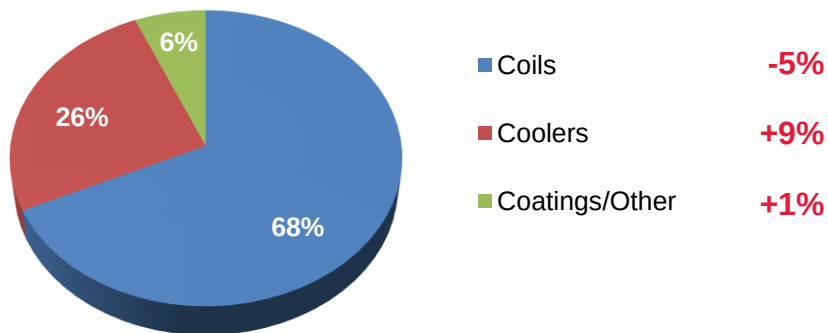


(in millions)

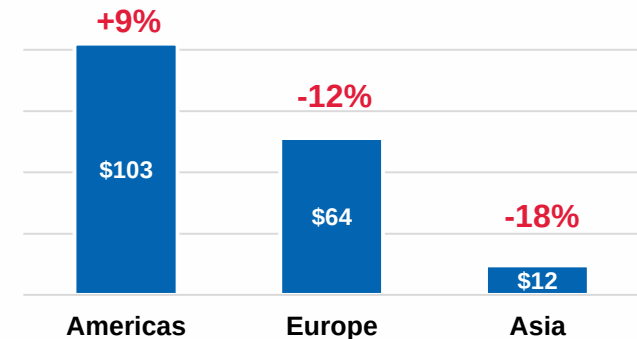
Sales by End Market



Sales by Product



Sales by Region



(in millions)

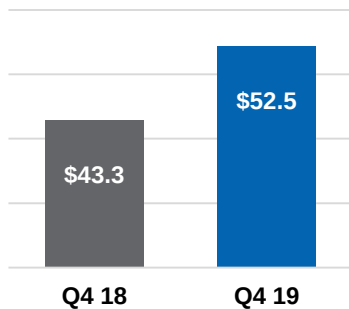
* See Appendix for Non-GAAP reconciliations

BHVAC Summary



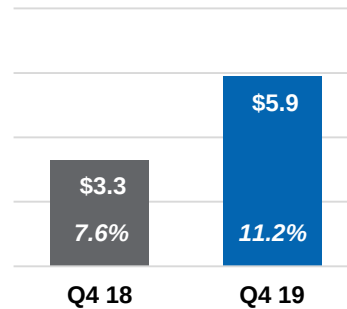
Net Sales

+21%



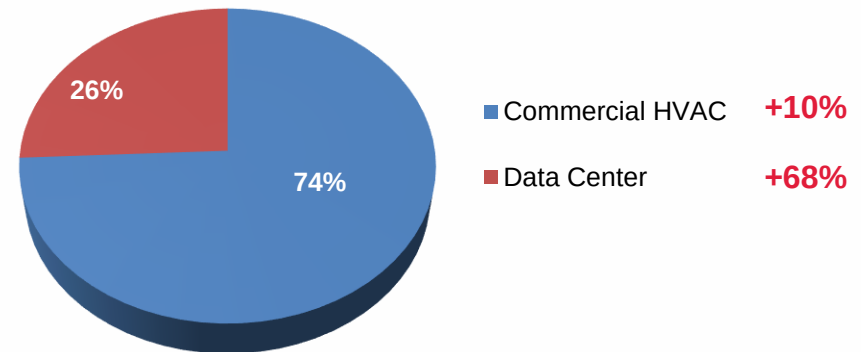
Adjusted Operating Income

+79%

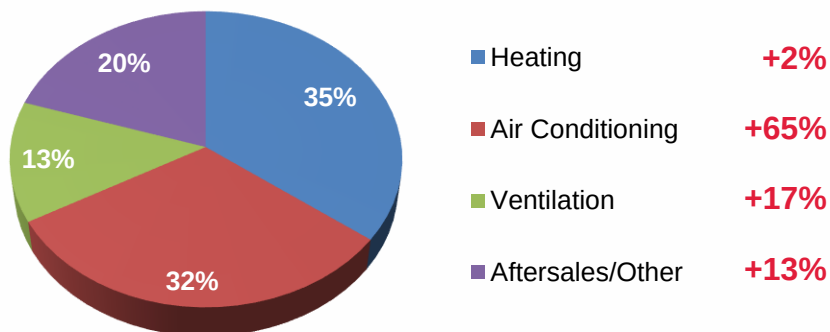


(in millions)

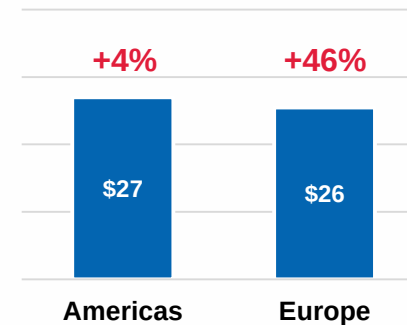
Sales by End Market



Sales by Product



Sales by Region

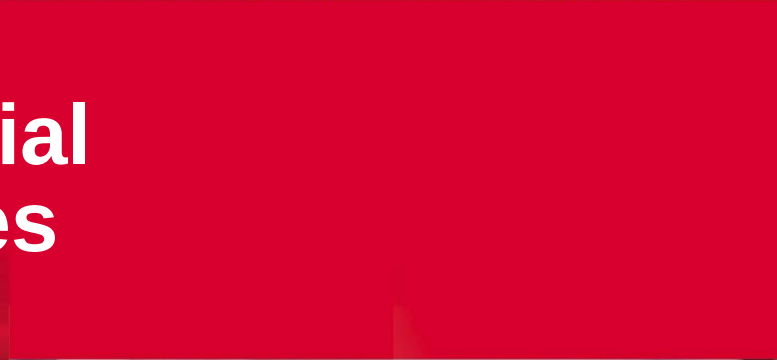


(in millions)

* See Appendix for Non-GAAP reconciliations



Financial Updates



Select Income Statement Items



Sales decreased \$9.9M or 1.7%

- On a constant-currency basis, sales were up 2.6%

Gross profit decreased 5.1%; margin negatively impacted by the VTS segment

- Stronger CIS margin primarily due to favorable product mix
- VTS experienced higher tariffs, along with higher labor and warranty costs

Reduced SG&A; down from prior year after excluding \$6M of strategy consulting and advisory fees

- Current quarter also includes \$1M of environmental charges

Adjusted operating income and margin relatively flat

- Significant operating margin improvements in CIS and BHVAC

Adjusted EPS declined \$0.04 or 9.1%, primarily due to higher tax rate

- 23% adjusted tax rate versus 16% in the prior year

(In millions)	Q4 2019	Q4 2018
Net Sales	\$556.7	\$566.6
Gross Profit	91.6	96.5
<i>Margin</i>	16.4%	17.0%
SG&A expenses	64.2	63.6
<i>% of net sales</i>	11.5%	11.2%
Adjusted Op Income*	34.6	34.7
<i>Margin</i>	6.2%	6.1%
Interest Expense	5.9	6.1
Provision for Income Taxes	4.2	2.1
Adjusted Tax Rate*	23%	16%
Adjusted EPS*	\$0.40	\$0.44

* See Appendix for the full GAAP income statement and Non-GAAP reconciliations

Cash Flow & Net Debt



- Free cash flow lower than the prior year, primarily due to higher incentive compensation payments and higher working capital levels
- Higher inventory levels were related to program launches and tariffs on our domestic supply of raw materials
- FY19 includes \$17M of cash payments for restructuring, environmental and consulting costs
- Net debt decreased \$32M, bringing our leverage ratio down to 2.1

(In millions)	Q4 YTD 2019	Q4 YTD 2018
Operating cash flow	\$103.3	\$124.2
Capital expenditures	(73.9)	(71.0)
Free cash flow	\$29.4	\$53.2

(In millions)	3/31/19	3/31/18
Cash	\$41.7	\$39.3
Total debt	449.7	479.4
Net debt	\$408.0	\$440.1
Leverage Ratio	2.1x	2.4x

Fiscal 2020 Guidance



(In millions)	Guidance	Comments
Net sales	\$2,213 to \$2,323	Flat to +5%; growth across most industrial and HVAC end-markets, slower growth in the vehicular markets and the wind-down of European truck programs
Adjusted operating income*	\$135 to \$145	+2% to +10% (+10 to +20bps); Improvement in all segments
Adjusted EPS*	\$1.55 to \$1.70	\$21M of annual interest expense; Assumes current foreign exchange rates; Increase in adjusted tax rate to 25%

- Anticipating revenue growth from targeted industrial markets in CIS and BHVAC, slower growth in key vehicular markets
- Adjusted operating income increasing due to margin improvements, tightly controlled SG&A and earnings growth in all segments
- Full year sales growth of 0 to 5%, and adjusted operating income growth of 2 to 10%
- Adjusted EPS range of -1% to +8%; expect our adjusted tax rate to be higher than Fiscal 2019
- Expecting difficult earnings comparisons in the first half and improving in the second half of Fiscal 2020
- The Fiscal 2020 outlook includes a full year impact of the automotive business

* See Appendix for Non-GAAP reconciliations

FY 2019 Conclusion



- Significant progress on the strategic review of automotive business
 - Automotive sales account for approximately 25% of total company revenues, representing more than \$500M
 - Automotive margins are generally lower than the VTS segment as a whole
 - Approximately 40-50% of total company capital spending has been dedicated to the automotive business
- Proceeding with a formal sale process
 - Carve out and separation will be extremely complicated
 - Some manufacturing facilities are dedicated, others are comingled
 - Pleased with level of interest and confident in the process
- On a proforma basis, we expect Modine will have improved operating margins, increased cash flow, and higher return on capital
- Maintain balanced approach to capital allocation and use of proceeds



Appendix



Q4 GAAP Income Statement



(In millions, except per share amounts)

	Q4 2019	Q4 2018	Better (Worse)
Net sales	\$ 556.7	\$ 566.6	\$ (9.9)
Cost of sales	465.1	470.1	5.0
Gross profit	91.6	96.5	(4.9)
SG&A expenses	64.2	63.6	(0.6)
Restructuring expenses	8.9	4.5	(4.4)
Impairment charges	-	1.2	1.2
Operating income	18.5	27.2	(8.7)
Interest expense	(5.9)	(6.1)	0.2
Other expense - net	(2.0)	(1.0)	(1.0)
Earnings before income taxes	10.6	20.1	(9.5)
Provision for income taxes	(4.2)	(2.1)	(2.1)
Net earnings	6.4	18.0	(11.6)
Net earnings attributable to noncontrolling interest	(0.1)	(0.4)	0.3
Net earnings attributable to Modine	\$ 6.3	\$ 17.6	\$ (11.3)
Net earnings per share - diluted	\$ 0.12	\$ 0.34	\$ (0.22)

Non-GAAP Reconciliations



Adjusted financial results (unaudited)

(In millions, except per share amounts)

	Three months ended March 31,		Twelve months ended March 31,	
	2019	2018	2019	2018
Operating income	\$ 18.5	\$ 27.2	\$ 109.7	\$ 92.2
Restructuring expenses ^(a)	8.9	4.5	9.6	16.0
Strategy consulting fees ^(b)	5.9	0.9	7.1	3.7
Environmental charges ^(c)	1.3	0.3	3.2	1.4
Loss on sale of assets ^(d)	-	-	1.7	-
Impairment charges ^(e)	-	1.2	0.4	2.5
Acquisition and integration costs ^(f)	-	0.6	0.2	4.3
Adjusted operating income	\$ 34.6	\$ 34.7	\$ 131.9	\$ 120.1
Net earnings per share attributable to Modine shareholders - diluted	\$ 0.12	\$ 0.34	\$ 1.65	\$ 0.43
Restructuring expenses ^(a)	0.17	0.08	0.18	0.26
Strategy consulting fees ^(b)	0.09	0.01	0.10	0.05
Environmental charges ^(c)	0.02	-	0.05	0.02
Loss on sale of assets ^(d)	-	-	0.03	-
Impairment charges ^(e)	-	0.02	0.01	0.04
Acquisition and integration costs ^(f)	-	0.01	-	0.06
U.S. tax reform ^(g)	-	0.04	(0.43)	0.74
Tax valuation allowances ^(h)	-	(0.06)	(0.02)	(0.06)
Adjusted earnings per share	\$ 0.40	\$ 0.44	\$ 1.57	\$ 1.54

^(a) Fiscal 2019 restructuring expenses primarily relate to employee severance expenses, largely resulting from targeted headcount reductions in Europe and the Americas within the Vehicular Thermal Solutions ("VTS") segment. Fiscal 2018 restructuring amounts primarily relate to employee severance expenses, largely resulting from the closure of a manufacturing facility in Austria within the Commercial and Industrial Solutions ("CIS") segment and targeted headcount reductions in Europe within the VTS segment, and equipment transfer and plant consolidation costs.

^(b) During fiscal 2019, the Company recorded \$7.1 million of expenses related to its evaluation of strategic alternatives for the automotive business within its VTS segment. These fiscal 2019 expenses primarily related to third-party professional services and were recorded as SG&A expenses at Corporate. In fiscal 2018, the Company recorded \$3.7 million of third-party strategy advisory fees as SG&A expenses at Corporate.

^(c) Environmental charges, including related legal costs, are recorded as SG&A expenses and relate to previously-owned U.S. manufacturing facilities in the VTS segment.

^(d) During fiscal 2019, the Building HVAC Systems segment sold its operations in South Africa and, as a result, recorded a loss of \$1.7 million. Annual sales for this disposed business were less than \$2.0 million. There was no tax benefit associated with this transaction based upon the capital loss tax treatment in the applicable jurisdiction.

^(e) During fiscal 2018, the Company closed an Austrian manufacturing facility within the CIS segment and, as a result, recorded a \$1.3 million impairment charge. During fiscal 2019, the Company recorded an additional impairment charge of \$0.4 million related to this closed facility. In addition, during fiscal 2018, the Building HVAC segment discontinued its geothermal product line and recorded a \$1.2 million impairment charge for long-lived assets it will no longer use.

^(f) These costs, recorded as SG&A expenses at Corporate, relate to the Company's acquisition and integration of the Luvala Heat Transfer Solutions business, which the Company operates as its CIS segment. The tax benefit related to acquisition and integration costs in fiscal 2018 was \$1.4 million.

^(g) During fiscal 2018, as a result of U.S. tax reform legislation enacted in December 2017, the Company recorded income tax charges totaling \$38.0 million related to the reduction in the U.S. federal tax rate and foreign earnings not previously taxed in the U.S. During fiscal 2019, the Company recorded income tax benefits totaling \$22.2 million, which were primarily related to these transition tax obligations and the recognition of tax assets for foreign tax credits.

^(h) During fiscal 2019, the Company adjusted its valuation allowances on deferred tax assets related to two separate subsidiaries in China. As a result, the Company recorded a \$2.0 million income tax benefit in the first quarter of fiscal 2019 and an income tax charge of \$1.0 million in the second quarter of fiscal 2019. On March 31, 2018, the Company reversed a portion of the valuation allowance on its deferred tax assets in China, and, as a result, recorded an income tax benefit of \$2.8 million.

Non-GAAP Reconciliations



Segment adjusted operating income and margin

(In millions)

	Three months ended March 31,	
	2019	2018
Vehicular Thermal Solutions		
Operating income	\$ 9.7	\$ 24.4
Restructuring expenses ^(a)	8.9	4.0
Environmental charges ^(a)	1.3	0.3
Adjusted operating income	<u>\$ 19.9</u>	<u>\$ 28.7</u>
Net sales	\$ 340.0	\$ 356.8
Adjusted operating margin	5.9%	8.0%

Segment adjusted operating income and margin

(In millions)

	Three months ended March 31,	
	2019	2018
Building HVAC Systems		
Operating income	\$ 5.9	\$ 1.7
Restructuring expenses ^(a)	-	0.4
Impairment charges ^(a)	-	1.2
Adjusted operating income	<u>\$ 5.9</u>	<u>\$ 3.3</u>
Net sales	\$ 52.5	\$ 43.3
Adjusted operating margin	11.2%	7.6%

Segment adjusted operating income and margin

(In millions)

	Three months ended March 31,	
	2019	2018
Commercial and Industrial Solutions		
Operating income	\$ 14.2	\$ 12.0
Restructuring expenses ^(a)	-	0.1
Adjusted operating income	<u>\$ 14.2</u>	<u>\$ 12.1</u>
Net sales	\$ 178.5	\$ 181.5
Adjusted operating margin	8.0%	6.7%

^(a) See the adjusted financial results on slide 15 for additional information regarding these adjustments.

Non-GAAP Reconciliations



Adjusted tax rate

(In millions)

	Three months ended March 31,	
	2019	2018
Earnings before income taxes	\$ 10.6	\$ 20.1
Restructuring expenses ^(a)	8.9	4.5
Strategy consulting fees ^(a)	5.9	0.9
Environmental charges ^(a)	1.3	0.3
Impairment charges ^(a)	-	1.2
Acquisition and integration costs ^(a)	-	0.6
Adjusted earnings before income taxes	<u>\$ 26.7</u>	<u>\$ 27.6</u>
Provision for income taxes	\$ 4.2	\$ 2.1
Taxes on adjustments above	2.0	1.7
U.S. tax reform ^(a)	-	(2.3)
Tax valuation allowance ^(a)	-	2.8
Adjusted provision for income taxes	<u>\$ 6.2</u>	<u>\$ 4.3</u>
GAAP tax rate	40%	10%
Adjusted tax rate	23%	16%

^(a) See the adjusted financial results on slide 15 for additional information regarding these adjustments.

Non-GAAP Reconciliations



Net sales - constant currency (unaudited)

(In millions)

Three months ended March 31,				
2019			2018	
	Net Sales	Effect of Exchange Rate Changes	Net Sales - Constant Currency	Net Sales
Vehicular Thermal Solutions	\$ 340.0	\$ 17.2	\$ 357.2	\$ 356.8
Commercial and Industrial Solutions	178.5	6.0	184.5	181.5
Building HVAC Systems	52.5	1.7	54.2	43.3
Segment total	571.0	24.9	595.9	581.6
Corporate and eliminations	(14.3)	-	(14.3)	(15.0)
Net sales	\$ 556.7	\$ 24.9	\$ 581.6	\$ 566.6

Twelve months ended March 31,				
2019			2018	
	Net Sales	Effect of Exchange Rate Changes	Net Sales - Constant Currency	Net Sales
Net sales	\$ 2,212.7	\$ 27.6	\$ 2,240.3	\$ 2,103.1

Free cash flow (unaudited)

(In millions)

Three months ended March 31,		Twelve months ended March 31,	
	2019		2018
Net cash provided by operating activities	\$ 35.9	\$ 18.2	\$ 124.2
Expenditures for property, plant and equipment	(15.2)	(16.0)	(71.0)
Free cash flow	\$ 20.7	\$ 2.2	\$ 53.2

Non-GAAP Reconciliations



Our fiscal 2020 guidance includes adjusted operating income and adjusted earnings per share. These are non-GAAP measures, which exclude certain cash and non-cash expenses or gains. These expenses and gains may be significant and include items such as restructuring expenses (including severance costs and plant consolidation and relocation expenses), costs associated with reviewing strategic alternatives for the automotive business in our VTS segment, acquisition and integration costs, impairment charges and certain other items. Estimates of these expenses and gains for fiscal 2020 are not available due to the low visibility and unpredictability of these items.